

AMENDED IN ASSEMBLY JUNE 30, 2010
AMENDED IN ASSEMBLY JUNE 21, 2010
AMENDED IN ASSEMBLY APRIL 8, 2010
AMENDED IN ASSEMBLY AUGUST 31, 2009
AMENDED IN ASSEMBLY AUGUST 17, 2009
AMENDED IN ASSEMBLY JULY 9, 2009
AMENDED IN SENATE MAY 20, 2009

SENATE BILL

No. 550

**Introduced by Senator Florez
(Coauthor: Senator Romero)**

February 27, 2009

An act to amend Sections 3204, 3205, 3207, and 3270.4 of, and to add Section 3205.7 to, the Public Resources Code, relating to natural resources.

LEGISLATIVE COUNSEL'S DIGEST

SB 550, as amended, Florez. Natural resources: oil and gas: drilling.
~~Existing~~

(1) *Existing* law regulates oil and gas activities. Existing law requires an operator of an oil and gas well to file with the State Oil and Gas Supervisor ~~certain~~ individual indemnity bonds at a specified amount for wells based on the depth of the well or blanket indemnity bonds. Existing law requires the bond to ensure that the operator faithfully complies with regulations governing the operation of the well.

This bill would ~~require an operator of an oil and gas operation to have insurance or obtain an indemnity bond in an amount and kind reasonably~~

~~expected to secure the costs of cleanup for any adverse environmental impact that could be expected from the operator's drilling activity. The bill would require the insurance or indemnity bond amount to be at least \$10,000,000, and in the case where the drilling is within 1,000 feet of groundwater, at least \$25,000,000. The bill would also require an operator of an oil and gas operation to disclose to the owner of surface rights any agreement between the operator and a drilling company. The bill would make an operator drilling on farmland responsible for compensating the landowners for surface damage to crops and other improvements caused during the drilling increase the amount of the indemnity bond and would require the supervisor to increase the indemnity bond amounts under specified conditions. The bill would require the operator, within 10 days of execution, to provide to the owner of surface rights written disclosure of any lease or agreement to drill, operate, maintain, or control a well between the operator and the owner of subsurface or mineral rights.~~

(2) Existing law authorizes the termination or cancellation of an individual or blanket indemnity bond under specified conditions.

This bill would prohibit the supervisor from terminating or canceling an individual or blanket indemnity bond if the supervisor determines that significant risk of damage from drilling or production activities remains. In the alternative, the bill would authorize the supervisor to require an operator to substitute that indemnity bond with a life-of-production or life-of-well facility bond.

(3) Existing law authorizes the supervisor to require a life-of-well or life-of-production facility bond in a specified amount from an operator with a history of violating regulations governing oil and gas wells or that has outstanding liabilities to the state associated with a well or production facility.

This bill would additionally authorize the supervisor to require a life-of-well or life-of-production facility bond for drilling or production activity that may present a significant risk of damage to natural resources, fish or wildlife, underground or surface water, or agricultural resources that are not adequately mitigated, as determined by the supervisor, by any other local, state, or federal law, regulation, or ordinance.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 **SECTION 1.** *Section 3204 of the Public Resources Code is*
2 *amended to read:*

3 3204. ~~Any~~ (a) An operator who, on or after January 1, 1999,
4 engages in the drilling, redrilling, *or* deepening, or in any operation
5 permanently altering the casing, of ~~any~~ a well shall file with the
6 supervisor an individual indemnity bond in the specified sum for
7 each well so drilled, redrilled, deepened, or permanently altered.
8 This sum shall be ~~fifteen~~ *twenty* thousand dollars ~~(\$15,000)~~
9 ~~(\$20,000)~~ for each well less than 5,000 feet deep, ~~twenty~~ *thirty*
10 ~~thousand dollars (\$20,000)~~ ~~(\$30,000)~~ for each well at least 5,000
11 feet but less than 10,000 feet deep, and ~~thirty~~ *forty* thousand dollars
12 ~~(\$30,000)~~ ~~(\$40,000)~~ for each well 10,000 or more feet deep. The
13 bond shall be filed with the supervisor at the time of the filing of
14 the notice of intention to perform work on the well, as provided
15 in Section 3203. The bond shall be executed by the operator, as
16 principal, and by an authorized surety company, as surety,
17 conditioned that the principal named in the bond shall faithfully
18 comply with all the provisions of this chapter, *including the duty*
19 *to prevent damage to life, health, property, natural resources, and*
20 *underground and surface waters*, in drilling, redrilling, deepening,
21 or permanently altering the casing in any well or wells covered by
22 the bond, and shall secure the state against all losses, charges, and
23 expenses incurred by it to obtain such compliance by the principal
24 named in the bond.

25 ~~The~~
26 (b) *The* conditions of the bond shall be stated in substantially
27 the following language: “If the _____, the above bounden principal,
28 shall well and truly comply with all the provisions of Division 3
29 (commencing with Section 3000) of the Public Resources Code
30 and shall obey all lawful orders of the State Oil and Gas Supervisor
31 or the district deputy or deputies, subject to subsequent appeal as
32 provided in that division, and shall pay all charges, costs, and
33 expenses incurred by the supervisor or the district deputy or
34 deputies in respect of the well or wells or the property or properties
35 of the principal, or assessed against the well or wells or the property
36 or properties of the principal, in pursuance of the provisions of
37 that division, then this obligation shall be void; otherwise, it shall
38 remain in full force and effect.”

1 (c) The supervisor shall increase the indemnity bond amounts
2 contained in subdivision (a) for either of the following reasons:

3 (1) The reasonable costs to secure the state against all losses,
4 charges, and expenses incurred by the state to obtain compliance
5 with all of the provisions of this chapter by the principal named
6 in the bond has increased by at least the annual rate of inflation,
7 as calculated by the Department of Industrial Relations, since
8 January 1, 2011.

9 (2) The supervisor determines both of the following:

10 (A) Any of the drilling activities covered by a bond may present
11 a significant risk of damage to natural resources, fish or wildlife,
12 underground or surface water, or agricultural resources, including
13 cultivated crops. Any increased bonding requirement shall be in
14 an amount reasonably expected to secure the total costs of
15 remediation or restoration of any of those damages.

16 (B) The risk is not adequately mitigated, as determined by the
17 supervisor, by any other local, state, or federal law, regulation,
18 or ordinance.

19 SEC. 2. Section 3205 of the Public Resources Code is amended
20 to read:

21 3205. ~~Any~~ An operator who engages in the drilling, redrilling,
22 deepening, or in ~~any~~ an operation permanently altering the casing,
23 of one or more wells at any time, may file with the supervisor one
24 blanket indemnity bond to cover all the operations in any of its
25 wells in the state in lieu of an individual indemnity bond for each
26 operation as required by Section 3204. The bond shall be executed
27 by the operator, as principal, and by an authorized surety company,
28 as surety, and shall be in substantially the same language and upon
29 the same conditions as provided in Section 3204, except as to the
30 difference in the amount. The bond shall be provided in one of the
31 following amounts, as applicable:

32 (a) The sum of ~~two~~ three hundred ~~thirty~~ thirty thousand dollars
33 ~~(\$250,000), which (\$330,000)~~ that does not include the bond or
34 fee required in Section 3206. A blanket surety bond provided prior
35 to January 1, 1999, shall be increased to comply with this
36 subdivision on or before January 1, 2001. A blanket cash bond
37 provided prior to January 1, 1999, shall be increased by a minimum
38 of thirty thousand dollars (\$30,000) per year, initially payable
39 January 1, 2000, and yearly on January 1, thereafter, until the
40 amount on deposit is sufficient to comply with this subdivision.

1 (b) The sum of one hundred *thirty* thousand dollars ~~(\$100,000)~~
2 ~~(\$130,000)~~, which does not include the bond or fee required in
3 Section 3206, for any operator having 50 or fewer wells in the
4 state, exclusive of properly abandoned wells.

5 (c) The sum of one million *three hundred thousand* dollars
6 ~~(\$1,000,000)~~, which ~~(\$1,300,000)~~ does include the bond or fee
7 required in Section 3206.

8 (d) *The supervisor shall increase the indemnity bond amounts*
9 *contained in subdivision (a) for either of the following reasons:*

10 (1) *The reasonable costs to secure the state against all losses,*
11 *charges, and expenses incurred by the state to obtain compliance*
12 *with all of the provisions of this chapter by the principal named*
13 *in the bond has increased by at least the annual rate of inflation,*
14 *as calculated by the Department of Industrial Relations, since*
15 *January 1, 2011.*

16 (2) *The supervisor determines both of the following:*

17 (A) *Any of the drilling activities covered by a bond may present*
18 *a significant risk of damage to natural resources, fish or wildlife,*
19 *underground or surface water, or agricultural resources, including*
20 *cultivated crops. Any increased bonding requirement shall be in*
21 *an amount reasonably expected to secure the total costs of*
22 *remediation or restoration of any of those damages.*

23 (B) *The risk is not adequately mitigated, as determined by the*
24 *supervisor, by any other local, state, or federal law, regulation,*
25 *or ordinance.*

26 SEC. 3. *Section 3205.7 is added to the Public Resources Code,*
27 *to read:*

28 3205.7. *An operator shall provide to the owner of surface rights*
29 *written disclosure of any lease or agreement to drill, operate,*
30 *maintain, or control a well between the operator and the owner*
31 *of subsurface or mineral rights within 10 days of the execution of*
32 *the lease or agreement.*

33 SEC. 4. *Section 3207 of the Public Resources Code is amended*
34 *to read:*

35 3207. ~~Any~~ (a) *An individual or blanket indemnity bond issued*
36 *in compliance with this chapter may be terminated and canceled*
37 *and the surety be relieved of all obligations thereunder when the*
38 *well or wells covered by—such that bond have been properly*
39 *completed or abandoned or another valid bond has been substituted*
40 ~~therefor~~ *for that bond.* Should the person who has filed a blanket

1 bond properly complete or abandon a portion of his *or her* wells
2 covered by the bond, the bond may be terminated and canceled
3 and the surety be relieved of all obligations ~~thereunder~~ *under the*
4 *bond* upon the filing by ~~such~~ *that* person of an individual bond for
5 each well ~~which~~ *that* is still not producing or ~~which~~ *that* he *or she*
6 is still engaged in drilling, redrilling, deepening, or permanently
7 altering the casing. Liability as to individual wells that have been
8 completed or drilled and abandoned under a blanket bond may
9 also be terminated.

10 *(b) The supervisor shall not terminate or cancel an individual*
11 *or blank indemnity bond issued in compliance with this chapter if*
12 *the supervisor determines that a significant risk of damage from*
13 *any drilling or production activity remains, considering any local,*
14 *state, or federal regulatory requirements, to natural resources,*
15 *fish or wildlife, underground or surface water, or agricultural*
16 *resources, including cultivated crops. Alternatively, the supervisor*
17 *may require an operator to substitute an individual or blanket*
18 *indemnity bond with a life-of-production or life-of-well facility*
19 *bond.*

20 *SEC. 5. Section 3270.4 of the Public Resources Code is*
21 *amended to read:*

22 3270.4. (a) In addition to the bonding requirements under
23 Article 4 (commencing with Section 3200), for an operator with
24 a history of violating this chapter or that has outstanding liabilities
25 to the state associated with a well or production facility, *or for any*
26 *drilling or production activity that may present a significant risk*
27 *of damage to natural resources, fish or wildlife, underground or*
28 *surface water, or agricultural resources, including cultivated*
29 *crops, and that risk is not adequately mitigated, as determined by*
30 *the supervisor, by any other local, state, or federal law, regulation,*
31 *or ordinance, the supervisor may require a life-of-well or*
32 *life-of-production facility bond in an amount adequate to ensure*
33 *all of the following:*

- 34 (1) The proper plugging and abandonment of each well.
35 (2) The safe decommissioning of each production facility.
36 (3) The financing of spill response and incident cleanup.
37 (4) *The remediation or restoration of damage to natural*
38 *resources, fish or wildlife, underground or surface water, or*
39 *agricultural resources, including cultivated crops.*

1 (b) Upon the failure of an operator to properly plug and abandon
2 a well, decommission a production facility, or perform the
3 appropriate spill response and incident cleanup, the supervisor
4 may levy on the bond to obtain money to pay the cost of the work.

5 (c) The supervisor may release a life-of-production facility bond
6 upon the satisfactory decommissioning of a production facility, or
7 when an operator has provided another valid life-of-production
8 facility bond.

9 (d) The supervisor may release a life-of-well bond upon the
10 satisfactory plugging and abandonment of all wells covered by the
11 bond or when an operator has provided another valid life-of-well
12 bond.

13 (e) Whenever an operator sells, assigns, transfers, conveys,
14 exchanges, or otherwise disposes to another operator a well or
15 production facility that is covered by a life-of-well bond or a
16 life-of-production facility bond, the new operator shall replace the
17 life-of-well or life-of-production bond, as applicable, and maintain
18 the new bond for five years before it may be released by the
19 supervisor.

20 (f) In lieu of the indemnity bond required by this section, the
21 supervisor may accept a deposit given pursuant to Article 7
22 (commencing with Section 995.710) of Chapter 2 of Title 14 of
23 Part 2 of the Code of Civil Procedure, excluding a deposit of
24 money, bearer bonds, or bearer notes.

25 (g) The supervisor shall adopt regulations specifying the content,
26 including the conditions, of the bond or other security instrument
27 required by this section.

28 ~~SECTION 1. Section 3205.7 is added to the Public Resources~~
29 ~~Code, to read:~~

30 ~~3205.7. (a) An operator shall file with the supervisor evidence~~
31 ~~of insurance or an indemnity bond in an amount and kind~~
32 ~~reasonably expected to secure the total costs of cleanup of any~~
33 ~~adverse environmental impact that could be expected to result from~~
34 ~~drilling, including the potential for drilling accidents, negligent~~
35 ~~drilling activity, or both. The indemnity bond or insurance policy~~
36 ~~shall be in an amount of not less than ten million dollars~~
37 ~~(\$10,000,000). In the case of subsurface drilling within 1,000 feet~~
38 ~~of groundwater, the indemnity bond or insurance policy shall be~~
39 ~~in an amount of not less than twenty-five million dollars~~
40 ~~(\$25,000,000), and shall specifically cover damage to groundwater.~~

- 1 ~~(b) An operator shall provide to the owner of surface rights~~
2 ~~written disclosure of any agreement between the operator and a~~
3 ~~drilling company within 10 days of the execution of the agreement.~~
4 ~~(c) In the case of drilling on farmland, an operator shall be~~
5 ~~responsible for compensating the landowners for surface damage~~
6 ~~to crops and all other improvements caused during the drilling.~~